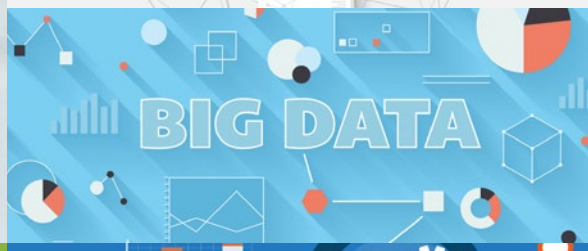
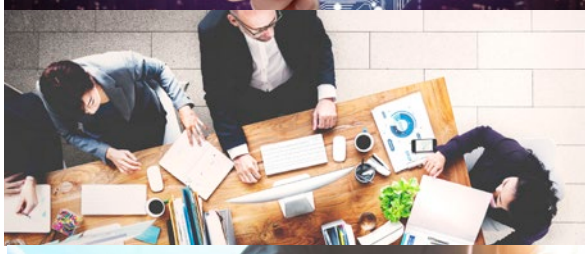
NACUSO℠

NATIONAL ASSOCIATION OF CREDIT UNION SERVICE ORGANIZATIONS

NACUSO Quarterly Review

Big Data & Data Analytics





Data Analytics: A Use Case For Payments Data

By Lou Grilli

Data analytics drive ROI, better member experiences, and increases in product penetration

Data analytics was once the sole domain of giant tech companies – Amazon's suggestions "If you bought that you might like this" or Facebook's algorithms of which of your friend's posts you most want to see on your timeline. With the proliferation of data across multiple systems, the increase in computing power at a decreasing price, and tools to extract and harness data, the science of data analytics is being increasingly used by credit unions to make better decisions. And it's not just bigger credit unions that are introducing business intelligence through data analytics to their staff. Credit unions with under $500 million in assets realize that data analytics drive ROI, better member experiences, and increases in product penetration across their member base.

Data Just for Data's Sake – NOT!

It's important to keep in mind that no company, regardless of industry, invests in data analytics just for the technology. The cost of the tools, the hardware (or more common, the cost of cloud storage), investment in staff, such as business analysts and possibly a data scientist, and consulting services to help get started, can represent not just a significant up-front investment, but an on-going cost that must be justified. The justification sometimes comes in the form of use cases; individual examples of data-driven decision-making that make a difference in how members are rewarded, what products are offered, or just making a member feel more connected to their credit union through targeted, meaningful campaigns.

A credit union's payments data, which includes credit and debit cards, ACH, Bill Pay, and account transfers and balances, represent a trove of data, which if used correctly, can yield successful data analytics use cases. One such use case is member segmentation to determine a credit union's most valuable members (MVMs).

Identifying Your Most Valuable Member

Everyone thinks they are special and deserve to be recognized for being the most valuable member. But, some members are more profitable for the credit union than others. A rewards program can be set up to incentivize these members, but first, the credit union needs to define who these MVMs are through segmentation, which begins with identifying MVM attributes. A credit cardholder with high a spend is one attribute, but not if they continuously take advantage of cash back bonuses. A member with a large direct

deposit is another attribute, but not if there are sizeable corresponding ACH out payments.

The best approach looks at multiple attributes simultaneously, which requires chunking through vast amounts of data from various sources and normalizing the data to get a member-centric view. Then the defined attributes (for example, 3 months of revolving balance, at least 10 credit transactions in specific merchant categories, and using at least 5 different products) is used to determine the MVMs. The credit union can decide how to make this segment of their membership feel special with customized marketing, point-specific promotions or VIP gifts.

If using data to make informed decisions and enhance member experience is on your list of priorities, ask us about our IronSafe and OnApproach solutions. E-mail us at info@trellance.com and get the power to use rich data to guide your business decisions.

About the Author:

Lou Grilli is the AVP of Product Development & Thought Leadership at Trellance. In this role, he is responsible for managing the organization's product portfolio, as well as providing leadership on industry trends related to data analytics and payments.

Prior to joining Trellance, Lou was Director of Mobile Products within the North American Retail Payments division at FIS. There he was responsible for enabling seamless access from smartphones and tablets to FIS products and services. He was also Director of Mobile Payment Solutions at American Express.

Lou holds an MBA from Duke, a master's degree in Computer Engineering from the University of South Florida, and a BA from Boston University in Computer Science.

Big Data/Data Analytics And Its Potential Impact On Credit Unions Return On Assets

By Dan Daggett

How Big Data and Data Analytics can impact your Credit Union

So, you may be thinking to yourself that in order to find out how Big Data and Data Analytics can impact your Credit Unions ROA you will need to create large spreadsheets, have countless meetings to analyze the data and then strategies on how you take that data and apply it in an impactful way at your Credit Union. Well, you are probably right, but in this article, I just want to give you some basic insight as to what two Maine CUSO's found when they looked at the Analytics behind just one product they were offering to their sponsor Credit Unions members, and that product is the Vehicle Service Contract.

Although this issue of NACUSO's quarterly review is about Data, another buzz word that's been used broadly in the past several years that also applies to this article is "Transparency." I'm going to play the Wizard of Oz and pull back the curtain to what happens behind the scenes of this commonly offered Credit Union product.

So here is the basic Data. Credit Unions across the nation offer Vehicle Service Contracts (VSC) daily, however very few Credit Unions have a high penetration level in doing so, generally around 12%. Additionally, they only tend to make $200 to $300 in retail income from the sale and the product is generally not on the priority list of products a Credit Union sells for a myriad of reasons. Compare that Data to what occurs with the same product at Car Dealerships. We know from NADA Data Analytics that Franchise Car Dealers have an average product penetration of VSC's of 43%. So, with just this basic data, the big question is why car dealers are so much more successful in selling VSC's. The answer is Income and Transparency!

Car Dealerships make an average retail mark-up of $1,000 on a similar VSC product that you mark-up by $200. What you don't see in this equation is where Transparency comes into the equation. I'm sure most of you have had the uncomfortable discussion with your current provider that your "Loss Ratio" on VSC's is getting high due to all the Member Claims they are paying, and what choice do you have but absorb the pricing increase and pass that on to your member. Well what they didn't tell you in that conversation, and up until now, most of us didn't know to ask is, "How much are the Administration Fees" on each policy sold? For example, the cost to your Credit Unions for a 3-year, 36-month VSC on a Toyota Corolla is $1,200 and your Loss Ratio may be 80%, but 80% of what amount? If the administration fee on that $1,200 VSC is $600 then your loss ratio is based on claims being paid out of a $600 pool, or $480 in claims. I'm sure you've been thinking that your loss ratio was based on the full $1,200 cost of the policy. Well, unfortunately, that is clearly not the case. Additionally, what happens to the other 20% that's not paid in claims? The answer should be obvious, but we rarely ask the question, and the answer is, your Provider keeps it!

What would your loss ratio be in the same scenario if your providers Admin fee was $350? The math is easy, $1,200 for the full cost, less $350 in admin fees leaves $850 to pay claims. With $480 in claims your

loss ratio falls to 56.4%, which should not be reason for concern or justification for a premium increase, but the question remains. What happens to the 43.6% of the money not paid in claims? Again, your Provider keeps it, and it is what the industry calls, "Underwriting Profit."

Well now that the curtain has been pulled back on two key factors that play into your current VSC product, it should be clear to see that the higher your Providers Administration fee is, and the fewer claims they pay, the more Underwriting Profit they keep. It is for these reasons, and others, that Melanie Munsey, President of the CUSO, Down East Insurance Agency and I partnered with Mark Giguere to create the industry's first Credit Union owned VSC product, CU Certified.

Our CU Certified VSC is the 1st program that we know that doesn't have a curtain, and true full transparency of all costs and claims are shared in a monthly cession statement. Oh, I almost forgot to mention a very important factor. Remember the "Underwriting Profit" I just shared with you? Well, here is the kicker, that "Underwriting Profit" now goes back to you, the Credit Union.

I think most of us know that Net ROA returns continue to be a major challenge for the Industry and without strong ROA's, our future growth is in jeopardy. Well, I can tell you we have seen the positive impact that Underwriting Profits alone can have on Credit Unions as we have seen this program account for 8 to 12 basis points in Net ROA for participants.

You can see from the chart below that for the Average US Credit Union with a .39% ROA, the impact that CU Certified can have on the low end is a 20.51% increase in ROA and a 14.81% increase for larger Credit Unions.

CUC ROA Range	Median CU ROA of .39% % Increase in ROA	Median ROA $100M-$500M in Assets of .54% % Increase in ROA
0.08%	20.51%	14.81%
0.10%	25.64%	18.52%
0.12%	30.77%	22.22%

This additional income can be achieved simply, by just having your Credit Union member purchase **Your** CU Certified VSC over the product you are currently offering, and one last carrot for you, ask us how Claims can positively impact your charge offs!

About the Author:

Dan Daggett is the current CEO of Credit Union Lending Alliance of New England (Culane, LLC) a Maine based Indirect Lending CUSO owned by Down East CU & CUAC, LLC of Houston. During Dan's 26-year career, he spent the first 14 years as the CEO of Bowdoinham FCU and in the later 12 he has served as the CEO of three CUSO's. It was as the CEO of Bowdoinham FCU that Dan developed his passion for the Credit Union industry. Having a true entrepreneurial mind, he along with his colleague, Melanie Munsey saw the need for a better mouse-trap and partnered with Mark Giguere to be the Architects behind CU Certified

The Power Of OPD

By Mike Joplin, CEO CU Revest

Credit Unions will be left behind if they don't start leveraging their data.

Big data has been a hot topic among big banks and other companies for the past few years. However, it seems like only the last couple of years that credit unions have started to make managing their data a priority. Part of that is because of better awareness created by organizations like CUlytics and Trellance. Part of it is because the cloud is making data analytics more accessible and more affordable. And part of it is simply that credit unions realize they'll be left behind if they don't start leveraging their data.

The bottom line is that every credit union is sitting on a treasure trove of valuable data. The question you have to ask, though, is this: Is the data my credit union has all the data it needs to be successful? I'm here to tell you the answer is no. If you're not leveraging other people's data (OPD), you're missing opportunities. There's no way around that.

TAMI knows...

Years ago, we began developing a system that's come to be known as TAMI (Tracking and Monitoring Intelligence). The idea behind TAMI is to aggregate data from multiple sources to build as accurate a profile as possible on the debtor for each account we're collecting. I'm proud to say that TAMI now aggregates data from nearly 800 sources.

If the debtor joins the military, TAMI knows. If the debtor gets evicted, TAMI knows. If the debtor switches cell phone carriers, TAMI knows. If the debtor applies for a new loan, TAMI knows. TAMI knows a lot.

We originally developed TAMI as a skip-tracing tool. In the world of bad debt, it's not unusual for a consumer to drop off the grid for years at a time. TAMI's original purpose was to let us know when a consumer resurfaced so we could resume collection activity.

Eventually we moved TAMI beyond that. Remember, TAMI sees questionable behavior like auto pawns and bad checks, and also good behavior like loan applications and new cell phones. In other words, we're able to see that a consumer's financial situation is improving just by observing a change in their behavior. That's important information for us to have.

Now that TAMI is becoming more well-known among our CU Revest credit unions, they're showing increasing interest in having TAMI monitoring entire portfolios. Consider, for example, an auto loan portfolio monitored by TAMI.

How valuable would it be to know that a member has applied elsewhere for a new auto loan? Or that a member is seeking to refinance his or her credit union auto loan? Or that a member is trying to pawn his or her credit union-financed automobile? Each one of these situations creates a different opportunity to provide superior member service by helping the member and helping the credit union.

TAMI can be an especially powerful tool in an economic downturn. It's impossible to know exactly which members will be hit the hardest. However, it is possible to get some advanced warnings and get your credit union and the member out in the front of the problem.

Imagine if you will, knowing the very same day that a struggling member took out a payday loan. If you act now to help that member instead of waiting until you're about to repossess his or her car, you can create a positive outcome for your credit union and your member. If you help your members avert a financial crisis, they'll be loyal for life.

By all means, develop a powerful strategy to leverage your own credit union's data. Just don't forget that to create the best member outcomes possible, you also need a good dose of OPD.

About the Author:

Mike Joplin is the co-founder and CEO of Credit Union Lending Cooperative, a CUSO created to help credit unions compete directly with marketplace lenders. He has over 35 years experience in commercial banking and consumer finance. He has launched numerous successful financial services organizations, including a number of CUSOs.

The Most Powerful Weapon You Already Have

By Dwayne Spradlin

Good friends listen and make the effort to be responsive and relevant in your life

Imagine having a friend who invites you to a concert for music you don't like, introduces you to people you have nothing in common with, and gifts you clothes that don't fit. Good friends listen and make the effort to be responsive and relevant in your life. That takes time and energy but makes for a great and long-term relationship.

When it comes to the relationships with your credit union's members, this kind of information gap can be devastating. Sure, a great rate on an auto loan can get prospective members through the door but can that alone keep them as engaged and loyal members? Of course this becomes substantially more challenging in a digital world where members may never step foot into a branch.

Loyalty comes from genuinely understanding and engaging your members in meaningful ways. Critically, you need to do this for every member. Undoubtedly, your loan officers know their larger accounts like the backs of their hands, but really understanding ALL your members and doing that on an enterprise scale is a real game changer. To some degree, these insights are just table stakes as institutions like Chase and Wells Fargo have been investing millions of dollars for years into proprietary data analyses and the programs that use the insights to drive results: highly relevant offers, increased product adoption, higher revenue per account, and greater loyalty.

Credit Unions are building the competencies in both data and the analysis that transform their data assets into real member insights. As member interactions are increasingly digital and where veritable seas of data are generated by every interaction and system available in use by their members, Credit Unions can now utilize that data to better target and drive powerful behavior change, grow their books of business and revenue, and capture opportunities across the portfolio of all their members.

One of the most powerful uses of data...

Data-backed decision making is the only way to ensure you're providing the most optimized and impactful service possible, to as many members as possible. With the right data, blind spots in your institution's

portfolio can be illuminated and new products can be developed. One of the most powerful uses of data is using incentives to reward and reinforce behaviors that are good for the member and the financial institution's growth and bottom line. After analyzing member's habits, preferences, and goals, incentives can further drive product adoption and keep members engaged with your credit union.

With the right technology, you can not only compete with the most advanced of these institutions, you can beat them. You can create the data driven insights and unique member experiences all while continuing to differentiate yourself as the financial institution that cares. The combination of the right data and the right technology coupled with your brand and local member focus will allow any credit union to thrive!

Data is the most powerful weapon that credit unions already possess.

Data is the most powerful weapon that credit unions already possess. By using the right technology and the right incentives, credit unions can deliver a new level of personalization and engagement that will drive profitable behavior, outstanding customer service, and long-term loyalty.

About the Author:

Dwayne Spradlin currently serves as CEO of Buzz Points, which drives revenue and retention through localized rewards programs and data-driven marketing solutions for community banks and credit unions.
He holds an MBA from the University of Chicago as well as a BA in Applied Mathematics.

5 Reasons Why Credit Unions Should Consider Partnerships With Big Data Companies In 2019

By John Dearing, Managing Director, Capstone Strategic, Inc.

Big data is exactly what it sounds like – a vast amount of structured and unstructured information, collected from an increasingly diverse set of digital and traditional sources. For credit unions, every interaction with members, every loan processed, fee collected, call center, or branch interaction is an opportunity to collect data which when aggregated, becomes "big data" that can then be mined to enhance your credit unions' growth and value to members by better understanding members' wants and needs.

What channel do your members use to interact with your credit union? What is the most popular service? The most profitable one? Big data analytics can help answer these questions and more. Here's why credit unions need to leverage big data in 2019:

1. **Information is the new currency** – Consumers are increasingly willing to share information in exchange for value. Think about how many "free" applications there are. While users do not pay any fees to use Facebook, Instagram or even Google, these tech companies are collecting large amounts of information on consumers and using analytics to interpret the data and develop their long-term strategies. For example, if demand for a particular product or service online has increased in a new location, that may signal a retailer that a new brick and mortar location is warranted or provide insights into the type of promotions that will resonate most with a particular demographic.

2. **Blockchain protects and empowers members** – One of the major concerns about big data is storing it securely and who has access to it. Right now data is controlled by large companies, but blockchain, which is not centralized, but uses encryption and algorithms, will begin changing this landscape. With blockchain, members will have more control over their own data and who and how much they share, and organizations may even pay to access an individual's information. Blockchain will enhance security and empower members. As cooperatives, credit unions have the responsibility to protect member data as well as the opportunity to use this data for good.

3. **Enhance member experience** – Consumers today expect a "story of one," a unique experience tailored to them. 60% of Millennials and Gen Z identify with this. The internet of things (IoT) includes devices like Amazon's Alexa, Google Home, or smartwatches, which are all key gatherers of data points and opportunities to interact with your members. Big data can provide insights for credit unions to fully understand members in a sophisticated way and offer a customized experience across multiple platforms – digital, mobile, phone, in person, etc.

4. **Improve efficiencies** – With appropriate analysis of big data, credit unions can track figures like loan portfolios or mobile payments, member wait times, etc. With real-time reporting, credit unions can make changes immediately to improve efficiency. For example, understanding when most members are calling

with questions, so you can appropriately staff your call center. Without big data you may be missing out on opportunity costs from member service, employee training, or product development perspectives.

5. **Spark innovation** – Predictive analytics are perhaps one of the most powerful ways to use big data. With big data tools you can have timely access to market research. Understanding member demand and powerful trends will become increasingly important as competition is only expected to grow as the financial services industry continues to consolidate. Big data could help you develop the right products and services based on demand and better position you to meet the needs of an everchanging membership base.

Making the most out of big data through partnerships

To use big data effectively, credit unions will need to determine how best to aggregate and organize the data, the right metrics to track, how to track efficiently, and how best to interpret the data to make a strategic impact. Few credit unions today have the sophisticated data analytics in-house needed to understand all the information and put it into action. It's not enough to track disparate data sets of information or report out reams of data.

The value of having a sophisticated partner that can attract, retain, and develop the right talent in data scientists is critical. This may mean partnering with a technology company or investing in a data analytics CUSO. An added bonus for credit unions is that some organizations, such as OnApproach, are working to pool together industry credit union data, so all organizations in the CU movement can improve, benchmark, and understand today's trends to succeed tomorrow.

Big data may seem impersonal because information on your members become part of statistics or trends. Yet, big data allows you to know your members on a deeper, but different level than a personal face-to-face interaction. And in a world in which your future members prefer to engage via technology channels rather than building in person relationships with their CU tellers, investing in big data today is more imperative than ever to ensure tomorrow's competitiveness. While personal interactions may never be fully replaced, the deep understanding from big data is what will help credit unions stay connected with members and further the collaborative spirit of people helping people, regardless of the means.

About the Author:

John Dearing is a managing director at Capstone, the leader in strategic mergers and acquisitions for CUSOs. The firm focuses on helping credit unions and CUSOs grow by developing, evaluating and implementing proactive initiatives for growth. John can be reached at 703-854-1910 or JDearing@CapstoneStrategic.com.

How Collaboration Gives Smaller Credit Unions Serious Analytics Capabilities

By: OnApproach

Can smaller credit unions keep up?

Part of maintaining relevance in the financial world is adjusting to new technology. Mobile banking and fintechs change the way people manage their money, and that trend looks to continue as Generation Z enters their twenties. As the financial landscape becomes increasingly data-driven, can smaller credit unions keep up? With collaboration, they can.

Credit unions generate massive amounts of data every day. Member data, financial history, transaction records, and the list goes on. While creating and storing all that information has its uses, where it really shines, is how it drives analytics.

Comparing Analytics Platforms

Only the most massive credit unions may have the resources to draw meaningful analytics from their data, as do other major financial institutions. However, the majority of credit unions lack the resources of their larger brethren. This puts them at a disadvantage when developing internal analytics capabilities.

Major obstacles to successful analytics initiatives for smaller credit unions include limitations in the following areas:

- Lack of funds
- Lack of time
- Lack of expertise

To make matters worse, these shortcomings in resources are related. Lack of funds means building a data warehouse is a stretch, as is maintaining the facilities, and hiring data scientists. Similarly, lack of time means it could take years to build the necessary infrastructure and train IT staff. Lastly, the expertise required to build, maintain, and interpret the data costs time and money.

For credit unions to individually compete in analytics in 2019, the outlook is grim.

Credit Union Collaboration

Okay, this isn't actually a doomsday piece. Smaller credit unions—and larger credit unions who don't want

to expend the massive amount of resources that building, maintaining, and interpreting of data that a solid analytics platform requires—can team up.

Credit union collaboration can take many forms:

- Data pooling, which democratizes the massive amount of information each credit union generates daily – in a highly secure environment. Data pooling grants smaller credit unions comparable access to Big Data that their competitors enjoy.

- App development and sharing. By using an open API, credit unions can create and benefit from pre-built apps that help make use of data, which minimizes the need for credit unions to continually re-invent the wheel at each organization.

- Collaborative analytics, which means that smaller credit unions can leverage their combined analytical resources to drastically improve their analytics platform capabilities.

While the primary benefits of credit union collaboration and collaborative analytics are in harnessing the possibilities of Big Data, it's also a cost-effective solution. Pooling resources means that each credit union need not do all the work themselves. Instead, they effectively outsource a good deal of their labor to their industry collaborators.

A Brighter Future

The vast majority of credit unions have less than a billion dollars in assets. That's a massive network of potential credit union collaboration.

Fortunately, there are third-party platforms developed specifically for credit union collaboration and collaborative analytics. If you'd like to see recent examples of how credit unions are already seeing success through collaboration and analytics, click here.

About the Author:

OnApproach was founded in 2005 as a data consulting company. Over the past 15 years they have evolved into a collaborative industry analytics solution to help credit unions transform their data into actionable goals. OnApproach won the 2018 New CUSO of the Year Award at the NACUSO Network Conference and was a finalist at the 2015 Next Big Idea Competition. They recently announced they are being acquired by Trellance. Tom Davis, CEO of Trellance said: The acquisition combines two leading Credit Union Service Organizations (CUSO) to become the industry's leading data analytics provider to credit unions nationwide.

We Have The Data, Now What? Top Considerations For Putting Your Data To Work

By Glynn Frechette, SVP, Advisors Plus at PSCU

In any consumer-facing industry, companies want to encourage repeat business.

Hotels, for example, want to provide guests with quality experiences and amenities in hopes of turning first-time guests into loyal, repeat guests. Retailers want shoppers to continue coming back to make multiple purchases throughout the year. And credit unions want to find ways to deepen their relationship with members, such as growing a member with a single checking account into one with a checking account, a savings account, a mortgage and a car loan, as well as providing advice and assistance as a trusted financial partner.

The key is putting the data to work.

But how does a credit union establish these repeatable behaviors? The key is putting the data your credit union is probably already collecting to work. When used properly, data can lead to learnings that become powerful tools credit unions can leverage to get to know their members better in order to reach them with the right products, services and offerings at the right time.

It is important for credit unions to recognize all of the levers associated with data and analytics and how they play together to achieve a positive outcome. Knowing which levers to pull and when is somewhat of an art form. Only so many levers can be pulled at once, and without the right experience, data unfortunately becomes unusable and unhelpful.

Start by acknowledging that not all members are created equal. Credit unions should segment their members into groups in order to ensure they are offering customized products to the right members, as well as reaching them through the channels in which they prefer to interact. Paying attention to how current members, in different segments, choose to engage with your credit union can help reach similar new members and keep current members engaged.

For example, if a credit union is targeting new Millennial members, utilize what you know about channel preference and focus message delivery efforts via the credit union's mobile app, rather than large-scale branch promotions. Consider how to use mobile phones to target potential new members and offer current members updates through the app. Implementing a holistic channel strategy to engage with members

across the channels that make the most sense for them – from texting to outbound calling to social media – will position your credit union for success.

When analyzing data, it is not just about what the numbers read but also understanding what transpired up to this point that caused a member to establish certain purchasing patterns or make specific banking decisions. Utilizing data and analytics is not a one-size-fits-all approach. Instead, it is dependent on a variety of factors. Some factors, like government shutdowns, getting laid off or coping with natural disasters, are out of a member's control. Others, like buying a house, getting married or having kids, are more predictable. But all of these occurrences will alter not only how members are interacting and transacting, but also how credit unions should view the data, reach conclusions and determine next steps.

Automation can help credit unions more efficiently and effectively reach members based on these life events. Then an "if not this, then that" approach can be deployed. For example, if a certain channel did not reach an intended audience, then the automated engine will take the necessary steps to shift to the next appropriate medium to reach the intended audience. Automation can also enable credit unions to proactively anticipate shifts in spending. When a member is expecting a child, for example, their spending habits will change. Your credit union can help them better prepare by identifying these new purchasing preferences early.

Credit unions should not feel pressured to go it alone when it comes to putting their member data to work. Partnering with a trusted consulting and campaign firm can help credit unions unlock the untapped potential behind their data. Experienced consultants can do the heavy lifting when it comes to analyzing raw data to help credit unions transition from just viewing numbers on a spreadsheet to devising and implementing a strategic roadmap outlining behavioral and predictive analytics that better positions your credit union to be there when and where your members need it.

Data and analytics can help credit unions understand their members' behavior, predict what they are likely to do next and anticipate their financial needs, creating a treasure trove of intelligence on which all credit unions should be capitalizing. Just having the data is not enough – you must learn how to put your data to use and analyze it in the correct way to achieve the desired results. Take control of your data and put it to work to see all of the benefits and successes it can bring to your members and your institution as a whole.

About the Author:

Glynn Frechette leads the Advisors Plus Consulting and Campaign Services organization at PSCU and is responsible for directing and deploying the full range of Advisors Plus financial and marketing services to credit unions. He has spent 24 years in the financial services industry, specializing in credit union and community bank partnerships.

How Blockchain's Asset And Authentication Capabilities Can Revolutionize Finance

By Jeff Falk, Director of Product-Payment Platforms, CO-OP Financial Services

Blockchain has grown in prominence over the past two years, going from industry buzzword to a true platform capable of delivering the future of secure data transfer. But while blockchain is being trusted with things such as medical records and even voting, many people still consider blockchain's relationship to the financial industry strictly through cryptocurrency.

Yet, blockchain can provide many more valuable resources for this industry beyond currency. The truth is that any type of data can be stored in blockchain, not just Bitcoin or similar currencies. Rather than be concerned with the type of data appropriate for blockchain, the focus should instead be on the purpose of that data: when it needs to be in a secure, permanent and transparent environment, ultimately treated as an asset rather than currency.

Assets Living On Blockchain

Blockchain developers have seen an increasing demand for managing data as assets, resulting in solutions for governmental needs, medical records and financial records – in fact, it goes beyond federal government interest and is seen on a state level as well. In the financial sector, both auto and home loans are pushing to utilize blockchain thanks to the ability to single-source data and execute via smart contracts for greater accuracy and efficiency. A real world example of this comes from the auto loan industry, where a person's record needs to be examined by the Title Company, loaning bank, car dealership, DMV and insurance company. Rather than working in parallel across copies of copies, blockchain allows the record to be an asset single-sourced by all entities. The benefits of this are game changing, including:

Creating and tracking digital assets: Once an asset is created on a blockchain, its existence is permanent and immutable. This creates a forever history of asset transactions. For any type of loan, this asset is used by all parties, eliminating any concerns of fraud or inaccurate copies. In fact, Deutsche Bank is already helping to pioneer such an initiative.

History and location of physical assets: For financial institutions, the record of a physical asset requires a digital breadcrumb trail to keep all parties on the same page. An example of this is a car, with a record that could be tracked via VIN number. If the car is shipping from dealership to dealership or its ownership transfers direct via a private sale, this single-sourced tracking allows an up-to-date source of current details.

Cost-effective logistics: The real estate industry offers an example of how blockchain's asset

management model can revolutionize processes. When a home is sold, numerous documents have to change hands, providing credit histories, income histories, home inspections and disclosures, and much more. Because there are many parties involved (buyer bank, seller bank, inspection company, title company, county records, etc.), the traditional process involves emailing and uploading PDFs and waiting on the receiver to act on them. While this is faster than the previous generation of mail and fax machines, it's still inefficient and slows down the process. Blockchains can utilize smart rule-based contracts that automatically execute subsequent steps upon, say, receiving a required PDF upload. All of this truncates wait times while keeping everything on the same accessible ledger for maximum transparency. This has already been seen in recent months across the New York real estate market.

A Smarter Way to Authenticate

So far, the idea of assets has only been discussed in a logistical sense – getting the process from A to B in a faster, more secure way. But blockchain's ability to ensure secure authentication changes many things for financial services. While a large retailer (think Amazon or even Apple ID) will probably lead the charge for this, the impact it makes on the financial sector is massive. From digital banking to fraud prevention to contact centers, digital identities on blockchain would shift into a permanent and secure environment. The result creates a truly unique identity, one protected against identity theft, data breaches and data leakage through the inherent nature of blockchain.

Because blockchain uses information as an asset across its life cycle, there is no limit as to what comprises that asset. In the case of authentication, this could mean birth information, legal name, driver's license number, social security number, even biometric information. If this model is adapted by governments down the road, blockchain assets could theoretically be created at birth, when marriages are recorded or when passports are received. These immutable records ensure identity accuracy in a way that has yet to be achieved. And since blockchain exists in a decentralized fashion, access to the records depends solely on the individual – a true secure and sovereign identity, available across multiple platforms (government, personal, business).

For the financial industry, which loses billions to fraud every year, this type of authentication could instantly change its internal economy. When combined with the logistical benefits mentioned above, the industry's external interactions could be protected, sped up and verified. Thus, it's clear that blockchain delivers a potential revolution not seen in finance since the widespread use of the web. The only question that remains is this: who will step up to lead this revolution?

About the Author:

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An Effective Data Strategy Starts With Your Core

By Bret Weekes, President/CEO, CUProdigy

Talk to any core data processor, from the newest of the new to legacy providers based on 50-year-old technology, and they'll all tell you that their core data is accessible and easy to work with. All I can tell you is that this statement is truer for some more than others.

With effective data management becoming increasingly important to credit unions of all sizes, I didn't want to give you the same pitch as everyone else. Instead, I decided to talk with the VP of IT at one of our credit unions (Sooper Credit Union, $390M in assets, 35,000 members) and let him tell you what having direct access to our modern, industry-standard database means to him.

Without further ado, please allow me to introduce you to Josh Henderson, VP of IT at Sooper Credit Union.

The Data Warehouse

Like so many other credit unions, Sooper's focus on its data strategy is relatively new. The cornerstone of this strategy is an ever-evolving and ever-growing data warehouse. This data warehouse is fed nightly by a data extract from the Prodigy core.

"By taking these nightly snapshots, we're able to take a very deep look at what's happening at our credit union over time," Josh told me. "Our data warehouse allows us to look historically at basic things like loan balances, as well as more complex analyses.

"For example, we can help the marketing department by measuring the performance of their campaigns," he continued. "We can compare the timing of individual campaigns to actual system activity to see what's working and what's not. In other words, we can know exactly what's moving the needle."

Batch or Real-Time?

Sooper's nightly data extract is of course a batch process. But what about real-time access to data? Isn't that important, too? According to Josh, the answer is yes. I'll let him explain.

"Because Prodigy replicates our database in real time, it's easy to access the data in real time from the secondary system without any risk to our production environment," he said. "For example, live data monitoring recently allowed us to identify some debit card fraud while it was happening. We saw some questionable PIN changes, canceled a few cards, and a potential disaster was averted."

Plays Well with Others

The idea behind a comprehensive data strategy is not only to analyze core data, but to analyze all of the credit union's data, wherever it happens to reside.

"We have some data that just doesn't reside in the core," Josh noted. "For example, our online banking platform and our bill pay provider both store data that we can access. As that data becomes more accessible, it becomes more powerful."

What's the Point?

"Our eventual goal is to simplify the data and create some advanced data models," said Josh. "We can define what a typical member means to us in terms of data, which in turn gives us a more complete picture of every member. By employing technologies like predictive analytics, we can help guide members to better financial decisions. That's good for them and good for us."

I asked Josh about artificial intelligence. He said that's something that's still on the drawing board at Sooper Credit Union, but he was 100-percent certain of one thing: No matter what the future brings, his Prodigy core will be able to easily provide him with the data he needs, when he needs it. That's really the whole point.

About the Author:

Bret Weekes was named president/CEO of CUProdigy in October of 2018. Prior to joining CUProdigy, Weekes was president/CEO of eDOC Innovations, a Middlebury, Vt.-based CUSO that provides digital transaction management and related technology, where he had spent the last 20 years. He began his career in leadership at a core data processor and was there nearly a decade before joining eDOC.

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